ANNUAL REPORT

OF THE

Prince Edward Island
Land Development Corporation

Year Ending 31 March

1988

CHARLOTTETOWN, PRINCE EDWARD ISLAND

July 14, 1988

The Honourable Tim Carroll
Minister
P.E.I. Land Development Corporation
Charlottetown
Prince Edward Island

Honourable Sir:

In accordance with the Prince Edward Island Land Development Corporation Act, I enclose the report of the Corporation for the fiscal year ended March 31, 1988.

This statement includes the Corporation's audited financial statements for this period.

Respectfully submitted,

Dianne Balderston

Dianne Balderston
Chairperson of the Board

TABLE OF CONTENTS

Letter of Transmittal. 3

Members of the Corporation's Board of Directors. 6

Policy Objective. 7

Program Objectives and Program Areas. 8

Report of the General Manager. 9

Staff of the Corporation. 11

Auditor's Report and Financial Statements. 13

Land Development Corporation Activities—1982-1988. 20

Financial Comparisons 1982-1988. 21

Summary Use of Lands Cumulative to March 31, 1988. 22

MEMBERS OF THE BOARD OF DIRECTORS

PRINCE EDWARD ISLAND
LAND DEVELOPMENT CORPORATION
MARCH 31, 1988

CHAIRPERSON	
Ms. Dianne Balderston	Farmer, Crossroads
VICE-CHAIRPERSON	
Ms. Alma MacLennan	Farmer, West Cape
SECRETARY-TREASURER	
* Mr. H. Lloyd Palmer	General Manager
MEMBERS	
Mr. Martin Ching	Farmer, Little Harbour
Ms. Teresa Mellish	P.E.I. Department of Agriculture
Ms. Dale Dewar	P.E.I. Department of Agriculture
Mr. William M. Jay	P.E.I. Lending Authority
ADVISORY MEMBERS	
* Mr. John VanAbbema	Farm Credit Corporation Moncton, New Brunswick

*Non-Voting

THE PRINCE EDWARD ISLAND

LAND DEVELOPMENT CORPORATION

POLICY OBJECTIVE

"TO CONSERVE, DEVELOP AND ASSIST IN IMPROVING THE USE OF LAND IN PRINCE EDWARD ISLAND IN RELATION TO ITS CAPABILITY AND IN ACCORDANCE WITH THE PUBLIC INTEREST, BUT WITH A PRIMARY OBJECTIVE OF CONSOLIDATING GOOD AGRICULTURAL LANDS FOR THE PURPOSE OF INCREASING FARMER AND AGRICULTURAL SECTOR INCOME."

PROGRAM OBJECTIVES

The Land Development Corporation assists efficient farm land reorganization and use by:

(a) purchasing land for farm use, and

(b) assisting farmers who require land by making this land available for sale or lease on reasonable terms.

PROGRAM AREAS

The program areas established in order to carry out these objectives include:

(a) Acquisition of Land;

to acquire land by means of direct cash purchase from farmers desiring to sell their farm properties.

(b) Dispersal of land:

the mechanisms set up for dispersal of land to farmers include:

(i) Sales —through direct cash, Agreements of Sale or Mortgage

(ii) Renewable five-year lease arrangements with the option to purchase.

GENERAL MANAGER'S REPORT

I am pleased to present the nineteenth Annual Report of the Prince Edward Island Land Development Corporation. In this report, I will highlight some of the activities of the Corporation and summarize any legislative or policy changes that have occurred during the year.

The fiscal year 1987/88 was my first full year as the Corporation's General Manager. I want to take this opportunity to express my appreciation to the staff for their co-operation and hard work. Their efforts have resulted in one of the most active years for the Corporation since 1981/82.

The income from the 1986 potato crop had a positive effect on farm incomes and was a contributing factor to the increased business. Accordingly, the number of properties purchased increased from 25 to 60 over the previous year, and sales of properties increased from 36 to 78. The number of new and renewed leases remained about the same at 116 compared to 117 the year previous. The value of purchases and building improvements of $4,215,368 was the largest amount in the Corporation's history. The number of acres purchased at 6,450 was the highest since 1981/82 and the total amount of financing to farmers at over $5.7 M in the form of leases, mortgages and building improvements was the highest amount ever. The total number of purchases, sales and leases at 254 was the highest since the 1981/82 year. A detailed account of these transactions is presented later in the report.

Because of the weak potato prices for the 1987 crop, farm income for the 1987/88 year was lower than 1986/87. This low price period made it difficult for farmers to pay their bills and some farm bankruptcies were experienced. Other farmers decided to sell their assets before they got to the non-liquid stage.

Accounts Receivable were $3,415,900 at year-end, up from the $3,127,123 the previous year. The net figure, however, is $2,039,700 compared to $2,091,900 the previous year. That is after the allowance for doubtful accounts is deducted.

Because of the serious financial situation facing many farmers, the Corporation decided to implement a policy of purchasing farm properties and leasing them back to the vendors, provided the transaction would keep the farm in operation on a viable basis. Six applications under this program, which was started in November 1987, were dealt with by the Board and five were approved while one was declined. In most cases, other creditors took a substantial write-off so that the farm could continue in operation rather than forcing the farmers into bankruptcy. In the cases that were approved, a management agreement was set up between the farmer, the corporation, and the extension staff of the Department of Agriculture.

The lease rate during the four quarters of the year was 8.25%, 8.9%, 9.38% and 9.16%. This composite rate is derived from the average of the long and short term borrowings of the Corporation.

Mortgage interest rates had traditionally been set to parallel those of the Farm Credit Corporation. However, regulations were amended in the spring of 1987 to allow the Corporation to charge ¾ % above its cost of borrowing from the province. This provided rates comparable to the Provincial Lending Authority.

The Corporation Act was also amended in the spring of 1987 to allow the Corporation to finance properties by way of mortgages for clients without the client first having to be turned down by the Farm Credit Corporation or any other lending institution. The previous restriction meant that the Corporation was the lender of last resort as far as mortgages were concerned.

The eligibility criteria was also amended in the spring of 1987 which influenced the activity of the Corporation. Part-time farmers who had off-farm income greater than $21,000 were not eligible previous to 1987/88. By Regulation change, this restriction was taken away so that all part-time farmers were eligible for lease agreements and mortgage financing.

The asset limits previous to 1987/88 restricted LDC programs to those farmers whose gross assets were under $350,000; $500,000 in the case of a partnership of two farmers and $600,000 in the case of partnerships or corporations having three or more members. The Corporation Board of Directors removed that policy restriction in the spring of 1987 so that the LDC programs are now available to all farmers, large and small.

During the year, the Board approved amendments to the fee structure charged by solicitors. The amendments are now in line with the law society's guidelines. The previous change was made in 1981.

I would ask that those persons reading this report pay particular attention to the financial statement and the accompanying notes offered by the auditors.

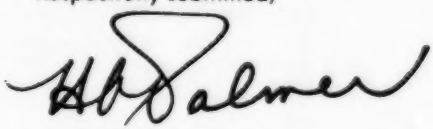
Lease income was lower this past year compared to 1986/87. This drop was because of a change in accounting practices as explained in Note 2 of the audited statement. In addition a loss of $371,000 on inventory write-down was incurred during the year as a result of a change in accounting policy instituted the year previous. The Corporation now takes a loss when a property is re-appraised rather than when the property is actually sold at the lower value.

A continual effort was made throughout the year to reduce the amount of idle inventory. Properties that had been in this category for five years or more were tendered. As a result, the value of land in idle inventory was reduced from $2M on March 31, 1987 to $1.8M on March 31, 1988.

In conclusion, I feel the Corporation has and is continuing to provide an excellent means of farm financing to Prince Edward Island farmers. The Corporation has attempted to change in line with the rapid changes in the industry. The Lease Back to Vendor Program and eligibility criteria are two examples.

I want to thank the Chairperson and members of the Board for their excellent cooperation and sound advice. I would like to also thank the Honourable Tim Carroll, Minister of Agriculture, and his Cabinet colleagues, for their support and positive actions during the year which has permitted the many changes in the Corporation to take place.

Respectfully submitted,



H. Lloyd Palmer, P.Ag.
General Manager

PRINCE EDWARD ISLAND LAND DEVELOPMENT CORPORATION

STAFF

APRIL 1, 1987 - MARCH 31, 1988

H. Lloyd Palmer	General Manager
Cynthia D. Potter	Administrative Assistant
Diane McCloskey (Casual Employee)	Clerk
Leonard Keefe	Administrator (Job Share)
Thomas Wallis	Administrator (Job Share)
Ernest Hudson	Area Manager
Frank Duguay	Area Manager
Edgar Coffin	Area Manager
George Harris	Area Supervisor

AUDITOR'S REPORT

To the Board of Directors of the
Prince Edward Island Land Development Corporation

I have examined the balance sheet of the Prince Edward Island Land Development Corporation as at March 31, 1988 and the statement of revenue and expenses for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1988 and the results of its operations for the year then ended in accordance with the basis of accounting disclosed in Note 1 to the financial statements applied, except for the change in the method of income recognition on leased properties described in Note 2, on a basis consistent with that of the preceding year.

J. Wayne Murphy, C.A.
Auditor General

Charlottetown, Prince Edward Island
June 1, 1988

PRINCE EDWARD ISLAND LAND DEVELOPMENT CORPORATION

BALANCE SHEET

MARCH 31, 1988

(with comparative figures at March 31, 1987)

ASSETS

	1988	1987
CURRENT ASSETS		
Cash	$ 465,700	$ 240,100
Accounts receivable — Trade — Note 3	2,039,700	2,091,900
Accrued interest	322,800	294,800
Property — held for resale — Note 8	4,689,100	4,871,200
Property — A.R.D.A. properties — Note 4	28,500	28,500
Mortgages and agreements of sale — Current portion	128,100	125,300
	7,673,900	7,651,800
LONG TERM ASSETS		
Leased Property	17,482,700	14,669,600
Mortgages receivable	1,933,300	1,887,300
Agreements of sale receivable	339,200	364,000
	2,272,500	2,251,300
Less: Current portion	128,100	125,300
	2,144,400	2,126,000
Fixed asset — Computer equipment	11,500	11,500
Less: Accumulated depreciation — Note 1(c)	11,500	8,600
	—	2,900
	19,627,100	16,798,500
TOTAL ASSETS	$27,301,000	$24,450,300

(Notes 1 to 8 are an integral part of these financial statements)

PRINCE EDWARD ISLAND LAND DEVELOPMENT CORPORATION

BALANCE SHEET

MARCH 31, 1988

(with comparative figures at March 31, 1987)

LIABILITIES

	1988	1987
CURRENT LIABILITIES		
Accounts payable		
— Province of Prince Edward Island	$ 1,377,800	$ 1,653,900
— General	146,500	98,300
— A.R.D.A. program — Note 4	16,200	17,600
Long term liabilities — Current portion	129,600	120,000
	1,670,100	1,889,800
LONG TERM LIABILITIES		
Province of Prince Edward Island		
— Notes payable — Note 5	18,393,500	15,193,500
— Loans — Note 6	7,352,700	7,472,700
Less: Current portion	129,600	120,000
	7,223,100	7,352,700
A.R.D.A. deferred profit on acquisition of properties — Note 4	14,300	14,300
	25,630,900	22,560,500
TOTAL LIABILITIES	$27,301,000	$24,450,300

(Notes 1 to 8 are an integral part of these financial statements)

PRINCE EDWARD ISLAND LAND DEVELOPMENT CORPORATION

STATEMENT OF REVENUE AND EXPENSES

YEAR ENDED MARCH 31, 1988

(with comparative figures for the year ended March 31, 1987)

		1988		1987
REVENUE				
Lease income — Note 2		$1,749,000		$1,846,000
Interest earned		503,000		494,000
Profit (Loss) on sale of property — Note 7		(7,000)		48,200
Miscellaneous income		17,400		6,900
Wood contracts		49,500		12,300
A.R.D.A. lease income — Note 4		800		1,700
		2,312,700		2,409,100
EXPENSES				
Administration				
Salaries	$293,400		$264,400	
Office	17,100		16,400	
Travel	14,200		10,100	
General	24,200		16,000	
Board of Directors	6,100	355,000	7,800	314,700
Interest — short term		3,300		500
— long term		2,125,500		2,045,300
Bad debts expense		395,900		611,300
Property purchase expense		21,200		26,300
Property maintenance		31,500		24,700
Depreciation expense — Note 1 (c)		2,900		2,500
Inventory writedown — Note 1 (b)		371,100		178,700
		3,306,400		3,204,000
Excess of Expenses over Revenue		993,700		794,900
Provincial Appropriation — Note 1 (a)		993,700		794,900
		$ —		$ —

(Notes 1 to 8 are an integral part of these financial statements)

PRINCE EDWARD ISLAND LAND DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1988

1. Summary of significant accounting policies:

   (a) Net Income —
   The financial statements of the Corporation do not reflect any net income. Government policy is that the Province of Prince Edward Island will absorb the profits or losses of the Corporation in the year in which they occur.

   (b) Property —
   Leased property is valued at the lower of cost and the lessee's purchase option. Land and buildings held for resale are valued at lower of cost or appraisal value. It is the policy of the Corporation to recognize gains and losses on properties at the time of disposal, except that where an option to purchase a leased property has been granted below cost, the loss is recognized at the time the option is granted. Also, it is the policy of the Corporation to recognize inventory purchases and sales at the time funds are received or disbursed.

   (c) Depreciation —
   The computer is being depreciated at a rate equal to the principal reduction on the five year loan provided by the Province to finance the purchase.

2. Change in Accounting Policy:

   The Land Development Corporation has changed its accounting policy for recognition of income on expired leases and new leases. In the past, the lessee was billed for a full year's payment. For the year ended March 31, 1988 the lessee was billed for the amount owing from the expiry date or the date the lease was signed to March 31, 1988, which resulted in less than a full year's payment. This policy has not been applied retroactively to prior years' statements.

3. Accounts Receivable — Trade:

	1988	1987
Agreements of Sale-principal receivable	$ 38,000	$ 46,100
Agreements of Sale-interest receivable	78,300	84,500
Mortgages-principal receivable	143,000	126,900
Mortgages interest receivable	489,600	398,500
A.R.D.A. lease income receivable	3,100	2,800
Lease income receivable	2,647,000	2,458,200
Miscellaneous	16,900	10,200
	3,415,900	3,127,200
Less: Allowance for doubtful accounts	1,376,200	1,035,300
	$2,039,700	$2,091,900

The majority of Mortgages, Agreements of Sale, and Leases have March 31 as their due date.

4. Title to the A.R.D.A. (Agricultural Rehabilitation and Development Act) properties was transferred to the Corporation during the year ended March 31, 1975. This transfer was made at a nil cost to the Corporation; however, the properties were recorded at their original cost under the A.R.D.A. program. Pursuant to the Federal-Provincial Cost Sharing Agreement half of the transfer amount was reflected as payable to the Federal Government and half as deferred profit to be recognized as the A.R.D.A. properties were sold. In addition, half of any lease income earned from the properties is also payable to the Federal Government.

5. Notes payable are renewed at the beginning of each month with the interest rate charged being the Province's short term lending rate. At March 31, 1988 the interest rate charged was 9.36 percent. Because the notes are not expected to be repaid in the near future, they are considered a long term liability.

6. Loans payable, Province of Prince Edward Island, consists of $4,891,000 covered by an agreement between the Province of Prince Edward Island and the Government of Canada. Under this agreement Prince Edward Island Land Development Corporation is to make repayment in three installments — the twentieth, twenty-fifth and thirtieth anniversary dates. For the remaining loans payable, repayment is to be made on an annual basis to maturity. There are 37 separate loans with varying interest rates between 6 11/16 percent and 13 1/4 percent and maturity dates between 1997 and 2005.

7. Loss on the sale of property for the year ended March 31, 1988 was based on the following:

Sale of property during the year	$1,237,500
Less: Cost of property sold	1,244,500
	$ (7,000)

8. Property held for resale is made up of the following:

Idle Inventory	$1,826,400
Expired Leases	2,862,700
	$4,689,100

Many of the expired leases have not been renewed or purchased by the lessees because they are seriously in arrears. Corporation policy does not permit renewal or exercise of the option unless the lease account is current. The Corporation does have a number of written agreements with the lessees extending the lease on a short term basis pending the payment of arrears.

LAND DEVELOPMENT CORPORATION ACTIVITIES — 1982-1988

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
Number of Purchases	72	40	63	49	25	60
Acres Purchased	5,662	4,375	6,127	5,153	2,209	6,450
Value of Purchases $	3,217,672	2,112,476	3,906,131	3,210,428	1,662,155	3,835,150
Number of Capital Improvements	19	18	18	20	17	29
Value of Capital Improvement $	206,335	566,659	168,270	484,119	413,519	380,218
Total Value Purchases & Improvements	3,424,007	2,679,135	4,074,401	3,694,547	2,075,674	4,215,368
Number of Lease Agreements (New and Renewed)	105	88	106	106	117	116
Value of New & Renewed leases $	—	2,947,503	3,830,372	4,315,431	3,148,816	5,153,108
Number of Acres in New & Renewed Leases	5,408	4,674	6,509	7,343	7,043	8,480
Number of New Mortgage Agreements	—		18	15	7	6
Value of New Mortgage Agreements $	—	306,037	395,149	572,945	270,526	200,566
Number of Properties Sold	73	99	73	69	36	78
Number of Acres Sold	2,360	4,349	3,343	3,903	1,792	3,348
Value of Properties Sold $	797,898	2,110,015	1,409,722	1,857,711	852,618	1,249,066
Value of Financing to Farmers includes leases, mortgages & improvements	3,647,375	3,820,199	4,393,791	5,372,495	3,832,861	5,733,892

FINANCIAL COMPARISONS

1982-1988

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
Property Leased $	9,579,958	11,480,290	13,631,938	15,624,872	14,669,630	17,482,700
Property held for resale $	4,036,364	2,787,334	3,292,421	3,141,929	4,871,155	4,689,100
Total Inventory Leased & Held for Resale $	13,616,322	14,267,624	16,924,359	18,766,801	19,540,785	22,171,800
Mortgages & Agreements of Sale — Receivable $	1,615,117	1,700,039	1,867,292	2,045,286	2,126,011	2,144,400
Accounts Receivable $	1,622,984	1,562,866	1,921,615	2,558,617	3,127,123	3,415,900
Allowance for Doubtful Accounts $	142,380	165,020	306,281	471,355	1,035,264	1,376,200
Net Accounts Receivable	1,480,604	1,397,846	1,615,334	2,087,262	2,091,859	2,039,700
Bad Debts — Written Off Cumulative since 1970	27,766	62,212	180,205	263,443	310,852	365,880

SUMMARY USE OF LANDS

(Cumulative to March 31, 1988)